

OLD DOMINION UNIVERSITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

Our audit of Old Dominion University for the year ended June 30, 2008, found:

- the financial statements are presented fairly, in all material respects, with generally accepted accounting principles;
- one internal control matter requiring management's attention; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

We have audited the basic financial statements of Old Dominion University as of June 30, 2008, and for the year then ended and issued our report thereon dated March 31, 2009. Our report, included with the University's basic financial statements, is available at the Auditor of Public Accounts' web site at www.apa.virginia.gov.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Contract Management and Ensure Compliance with Policies and Procedures

The Material Management Department did not properly notify other University officials or receive budget authorization for collected commissions and rebates totaling over \$300,000. In addition, we noted other procedural contracting issues within Material Management. Material Management is the University's primary procurement office including establishing standing contracts for both services and goods, and assisting and overseeing other department's acquisition of goods and services.

Following industry practices, Material Management regularly negotiates contracts which include commissions and rebates depending on the volume of purchases over time. Typically, these commissions and revenues become part of the University's overall revenue collections or are offsets against federal grant and contract costs, when appropriate.

By not properly notifying other University officials or receiving budget authorization for these commissions and rebates, Material Management did not follow University policies and procedures, especially the inclusion of these funds in the budget process. Further, because Material Management is the University's primary procurement office, this practice can lead to an appearance of a conflict of interest on the negotiation of contracts. The University has transferred the commissions and rebates to other accounts. However, as the University's primary procurement office, the procedural errors the auditors noted do not reflect favorably on the department's oversight responsibilities.

University management and the Internal Audit Department should conduct an operational review of Material Management. The objectives of the review should not only determine whether the department is complying with existing University policies and procedures but does the University need to change its policies and procedures so that Material Management can continue to provide guidance to other University departments needing procurement assistance.

Also, University management and the Internal Audit Department should undertake a review to identify other sources of funding which other departments are not including in the University's normal budget process. The University receives funds at multiple sites and this process will help ensure that the University has a comprehensive knowledge of these sites.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

March 31, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Old Dominion University

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of **Old Dominion University** as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 31, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency entitled Improve Contract Management and Ensure Compliance with Policies and Procedures, which is described in the section titled "Audit Findings and Recommendations," to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The University's response to the finding identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on April 15, 2009.

AUDITOR OF PUBLIC ACCOUNTS

HV/clj



VICE PRESIDENT FOR ADMINISTRATION AND FINANCE
NORFOLK, VIRGINIA 23529-0014
PHONE: (757) 683-3464

April 14, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box
Richmond, VA 23218

Dear Mr. Kucharski:

We have reviewed the findings and recommendation by the Auditor of Public Accounts and have prepared the below management's response to the finding.

Finding: Improve Contract Management and Ensure Compliance with Policies and Procedures

Management's Response

University management was aware of the negotiation and receipt of the \$300,000 in commissions and rebates. Management acknowledges that the funds were initially deposited in the incorrect account; however University internal controls detected the error and transferred the funds to the appropriate account. The funds were never spent and are currently available for distribution through the University budget process.

The University is currently reviewing all policies and procedures relating to revenue contracts and will update to ensure that proper documentation exists to support who is authorized to sign a revenue contract and receipt the funds. Contract language is being revised to instruct future vendors to send all rebate checks to the University's Cashier's Office. In addition, the University is in the process of contacting current vendors to notify them that all rebate checks should be sent directly to the University's Cashier's Office.

The University's Internal Audit Department has been notified and will incorporate any reviews as deemed necessary.

Please contact me if additional information is needed.

Sincerely

Robert L. Fenning
Vice President for Administration and Finance

OLD DOMINION UNIVERSITY
Norfolk, Virginia

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